

Date Mailed September 9, 2004

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Investigation of the Accounting Treatment for Account 271,
Contributions in Aid of Construction and Modification of the
Uniform Systems of Accounts for Municipal Electric, Gas,
Water and Sewer Utilities

05-US-105

SUPPLEMENTAL DECISION

This is a supplemental decision in this proceeding to incorporate additional accounting measures to reclassify depreciation associated with contributed plant from the historical depreciation reserve to a deferred regulatory liability account and amortize the deferred amount over a 20 year period.

Introduction

On April 2, 2001, the Public Service Commission (Commission) issued a Final Decision modifying the Uniform Systems of Accounts (USOA) for Municipal Electric, Gas, Water and Sewer Utilities to revise the accounting and ratemaking for Account 271, Contributions in Aid of Construction (CIAC). The Commission decided that the future method of accounting and ratemaking for municipal Account 271, CIAC, should be the "Alternate Commission Method" as described in the Commission's April 2, 2001, order and set forth in Appendices B and C of that order. The order adopting the USOA and ratemaking modifications was effective January 1, 2003.

Findings of Fact

1. The supplemental accounting treatment set forth in Appendix A to this decision is a reasonable method for use in reclassifying depreciation associated with contributed plant from the historical depreciation reserve.
2. It is reasonable to place the reclassified depreciation in a deferred regulatory liability account and amortize the deferred amount over 20 years.
3. The accounting treatment will be effective on January 1, 2004, and reflected in the calendar year 2004 municipal utility annual reports to be filed by April 1, 2005.
4. For ratemaking purposes, the deferred regulatory liability account balance will be a reduction in the net investment rate base computation.
5. For ratemaking purposes, municipal utilities shall reflect the regulatory liability and annual amortization effect in all rate cases filed after the issuance date (mailing) of this order.

Conclusions of Law

1. The Commission has authority under Wis. Stat. §§ 196.02(1), 196.06(1), 196.06(3), and 196.39 to modify the USOA for municipal utilities. This supplemental order clarifies accounting treatment but otherwise does not change the Commission's final order issued on April 2, 2001. This is not an evidentiary proceeding; thus, a hearing is not required nor was one held.

Opinion

Subsequent to the issuance of the Final Decision on April 2, 2001, in this docket, municipal utilities began implementing the Alternate Commission Method. Representatives of the water utility industry began expressing concern with the accounting changes. In particular, there was concern with the retention of prior historical depreciation associated with the contributed plant being retained in the historical accumulated depreciation account balance. While a general application of the Alternate Commission Method addressed this, it did not do so with specificity.

Working meetings were held with interested members of both the municipal electric utility industry and the municipal water utility industry, culminating in an accounting proposal to address the above-referenced, limited-scope issue regarding the historical accumulated depreciation on contributed plant.

The proposed accounting entries appended to this Order set forth five additional modifications that supplement those enumerated in Appendix C of the April 2, 2001, Final Decision in Docket 05-US-105. These additional modifications provide for an offset/reduction in the accumulated depreciation on utility financed plant, eliminate negative book values and, over time, the amortizations will eliminate negative net investment rate base (NIRB). The modifications are summarized as follows:

- Accumulated Provision for Depreciation of Utility Plant, Financed by Utility Operations or by the Municipality, Subaccount 111.1 will be reduced equal to the amount recorded as of January 1, 2003, in Account 111.2 by debiting Subaccount 111.1 and crediting Account 253, Other Deferred Credits.
(Subaccounts 111.1 and 111.2 are for Class AB municipal utilities. For Class C/D municipal utilities, the Subaccounts are numbered 110.1 and 110.2.)

- The amount credited to Account 253 will be described as a Regulatory Liability for pre-2003 Historical Accumulated Depreciation on Contributed Utility Plant.
- The Regulatory Liability amount recorded in Account 253 will be amortized equally over a 20-year period, unless otherwise directed by the Commission.
- The unamortized Regulatory Liability account balance will be deducted in the calculation of NIRB.
- The Regulatory Liability annual amortization amount will be debited to Account 253, Other Deferred Credits, and credited to Account 425, Miscellaneous Amortization.
- For ratemaking purposes, cash flows in the utility's next and subsequent rate cases over the next 20 years of this proposed amortization period will have the following impacts:
 - a. The Regulatory Liability will decrease resulting in an increase in NIRB. The cash flow from the return on NIRB will increase and be recovered in customer rates.
 - b. The amount credited to Account 425, Miscellaneous Amortization, will have no effect on cash flow nor on customer rates.

This proposal provides for consideration of the accumulated depreciation reserve amount associated with the contributed plant as a regulatory liability to be amortized equally over a 20-year period. This proposal meets the intent of the Commission's 2001 Final Decision in this docket, providing a balanced approach between the needs of customers and municipal utilities. It also addresses the municipal utilities' concerns with the retention of the accumulated depreciation from contributed plant remaining in the depreciation reserve for the utility financed plant.

The revised accounting proposal has been agreed to by representatives of the municipal water and electric utility industries, as well as the Commission's Staff Accounting Policy Team. The accounting method shall be effective for municipal utilities beginning with the January 1, 2004 calendar year. Thus the annual reports due on or before April 1, 2005, for

calendar year 2004 will reflect the new accounting method. Furthermore, it is reasonable and consistent with past practice to include the effects of the new accounting method in all rate cases filed after the date of issuance of this order.

Order

1. The Commission adopts the accounting and ratemaking modifications included in Appendix A for Municipally Owned Water, Electric, Gas and Sewer Utilities that are regulated by the Commission.

2. The accounting modifications shall become effective on January 1, 2004, for municipal utilities.

3. Rate case applications using a 2005 or later test year filed on or after the date of issuance of this order shall reflect the ratemaking modifications.

Dated at Madison, Wisconsin, _____

By the Commission:

Lynda L. Dorr
Secretary to the Commission

LLD:bhh:g:\order\pending\05-us-105 supplemental order.doc

See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98

Appendix A

The items below are a continuation of the numbering in Appendix C of the Final Decision in Docket 05-US-105, Issued April 2, 2001.

8. The accounting entry for the transfer of the estimated Pre-2003 Historical Accumulated Depreciation on Contributed Plant to a Regulatory Liability Account as follows:

	<u>Debit</u>	<u>Credit</u>
Subaccount 111.1, Accumulated Provision for Depreciation of	xxxxx	
Utility Plant, Financed by Utility Operations or by the Municipality		
Account 253, Other Deferred Credits		xxxx

The debit to Subaccount 111.1, Accumulated Provision for Depreciation of Utility Plant, Financed by Utility Operations or by the Municipality, is equal to the amount credited to Subaccount 111.2, Accumulated Provision for Depreciation of Utility Plant, Contributed Plant, as of January 1, 2003. The credit to Account 253, Other Deferred Credits, is for creation of the Regulatory Liability for the estimated Pre-2003 Historical Accumulated Depreciation on Contributed Plant.

(Subaccounts 111.1 and 111.2 are for Class AB municipal utilities. For Class C/D municipal utilities, the Subaccounts are numbered 110.1 and 110.2.)

9. The accounting entry for the 20 year amortization of the Regulatory Liability for the Unamortized Historical Accumulated Depreciation on Contributed Plant, the balance of which is reported in Account 253, Other Deferred Credits, is as follows:

	<u>Debit</u>	<u>Credit</u>
Account 253, Other Deferred Credits	xxxxx	
Account 425, Miscellaneous Amortization		xxxx

The debit to Account 253, Other Deferred Credits, is for the annual amortization of the Regulatory Liability for the Pre-2003 Historical Accumulated Depreciation on Contributed Plant, recorded in entry #8 above, in equal annual amounts over a period of 20 years. The annual amount amortized is credited to Account 425, Miscellaneous Amortization.

10. For ratemaking purposes, the unamortized account balance of the Regulatory Liability created in accounting entry # 8 above will be included as a deduction in calculating Net Investment Rate Base.
11. For ratemaking purposes, in accounting entry #9 above, the amount credited to Account 425, Miscellaneous Amortization, will have no effect on the revenue requirement.
12. For accounting entry #9 above, the annual amortization amount will be in equal amounts over a 20 year period unless otherwise directed by the Commission.